

## Message Text

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USCINCEUR VAIHINGEN GER

AMEMBASSY PARIS

NSE/NSSG SHAPE BELGIUM

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 3631

E.O. 11652: GDS: 12-31-80

TAGS: NATO, XG, ETRN

SUBJECT: REPORT OF CENTRAL EUROPE PIPELINE POLICY COMMITTEE  
(CEPPC) MEETING OF 19, 20, 21 JUNE 1974

DEFENSE FOR OASD/I&L, MR. NOLAN AND COMPT, MR. UMBARGER; STATE  
FOR EUR/RPM, MR. REHFELD; JCS FOR J-4 PETROLEUM; USCINCEUR FOR  
J-4 JPO; AMMB PARIS FOR MR. HUMPHREYS; NSE/NSSG FOR MR. MINER.

REF: A. USNATO 3045; B. STATE 121045; C. USNATO 2002; D. STATE 138216  
(QR JUL 73)

BEGIN SUMMARY. CEPPC JUNE MEETING IN VERSAILLES COVERED REVISION  
OF CEPS COST SHARING FORMULA, MID-YEAR FINANCIAL REVIEW, SPECIAL  
REPORT BY NATO BOARD OF AUDITORS OF PAYMENTS TO TRAPIL, EXTENSION  
OF LE HAVRE-VALENCIENNES CIVIL MOVEMENTS CONTRACT, AND A  
RESTRICTED SESSION WHERE BELGIUM NOMINATED LT GEN VERGOIS FOR THE  
CEOA POST OF GNERAL MANAGER. A TWO-STEP APPROACH TO REVISING  
THE CEPS COST SHARING FORMULA WAS DEVELOPED WHICH PERMITS  
COMMITTEE TO PROPOSE NEW SHARES (1) CONSIDERING FACTORS WITHIN  
ITS COMPETENCE (BASED UPON SYSTEM USE PLUS AND INCENTIVE FACTOR  
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TO ENCOURAGE HOST NATION EFFICIENCY IN PIPELINE OPERATION), AND  
(2) FORWARDING OF RESULTING FORMULA TO DEPUTY SYG PANSAS  
COMMITTEE TO ADJUST FOR BURDENSARING CONSIDERATION GMV ACTION  
REQUESTED: WASHINGTON APPROVAL OF APPROACH TO COST SHARING

REVISION AS OUTLINED IN PARA III(A), AND NOTING OF (1) MID-YEAR FINANCIAL REVIEW ESTIMATES OF CEPS 1974 NET COST RANGING FROM 45 MILLION TO 50 MILLION FRENCH FRANCS BECAUSE OF DROP IN CIVIL MOVEMENT AND HIGH WAGE INCREASES, AND (2) NON-APPROVAL BY US OF EXTENSION OF LE HAVRE-VALENCIENNES CONTRACT PENDING RECEIPT AND REVIL OF CEOA COST STUDY OF LINE. END SUMMARY.

COMMENTS ON AGNDA ITEMS FOLLOW:

I. APPROVAL OF AGENDA. AGENDA WAS APPROVED WITH THE ADDITION OF AN ITEM ON THE EXTENSION OF THE LE HAVRE-VALENCIENNES CONTRACT.

II. APPROVAL OF SUMMARY RECORD (AC/120-R/202). DOCUMENT WAS APPROVED WITH SEVERAL CORRECTIONS WHICH WILL APPEAR IN CORRIGENDUM.

III. FINANCIAL PROBLEMS TO BE STUDIED BY CEPPC.

(A) COST SHARING FORMULA FOR THE CEPS. CEOA PREPARED PAPER (WP/OAG(74)521) ON PROPOSED CHANGE IN THE CEPS COST SHARING FORMULA AS REPORTED REF A. (PAPER RECIVED MISSION ON 17 JUNE AND POUCHED TO WASHINGTON SAME DAY.) AFTER LENGTHY DISCUSSION COMMITTEE ADOPTED CONENTS OF PAPER AS GENERAL BASIS FOR REVISION OF COST SHARING FORMULA. THE US REP STATED (PER REF B) THAT THE ULTIMATE GOAL REMAINS ELIMINATION OF US CONTRIBUTIONS TO OPERATING DEFICIT. THIS MAY BE ACHIEVED BY ABSORPTION OF OPERATING DEFICIT THROUGH INCREASED REVENUE, REDUCED EXPENSES, OR BOTH. IT MAY ALSO BE ACHIEVED BY REALLOCATION OF DECICIT TO EXCLUDE US CONTRIBUTION. OTHER COMMITTEE MEMBERS EXPRESSED CONCERN WITH THE US STATEMENT. THEY FELT THAT THE US VIEW WAS UNACHIEVABLE SINCE IT WOULD NEVER BE POSSIBLE TO INCRASE REVENUES AND/OR ACCOMPLISH COST REDUCTIONS TO THE POINT WHERE THERE WOULD BE NO DEFICIT FOR CEPS. CIVIL TARIFF INCREASES WOULD BE LIMITED TO THAT LEVEL WHICH MEETS THE COMPETITION OF OTHER TRANSPORT MEANS. WHILE MILITARY TARIFFS COULD BE INCREASED, THE COSTS WOULD BECOME SO HIGH THAT NATIONS MIGHT DECLINE TO USE THE CEPS FOR PEACETIME MILITARY PRODUCT MOVEMENT (NOT MANDATORY FOR CEPS USERS), WHICH IN ITSELF WOULD CONFIDENTIAL

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CAUSE A DEFICIT. FURTHER, THE CEPS WAS DESIGND TO MEET MILITARY NEEDS AND WAS NOT, THEREFORE, OF THE SIZE, TYPE, OR IN THE CONFIGURATION WHICH TODAY'S COMMERCIAL PIPELINS MUST BE, TO OPERATE WITHOUT A DEFICIT.

COMMITTEE MEMBERS EMPHASIZED THAT THE CENTRAL EUROPE NATO MILITARY AUTHORITIES HAVE ESTABLISHED A MILITARY REQUIREMENT FOR A CEPS, WHICH STATED THAT THE CEPS MUST BE MAINTAINED IN AN OPERATIONAL CONDITION READY FOR WARTIME USE. THIS BASIC PREMISE CALLS UPON THE CEPS USER NATIONS TO CONTRIBUTE TO THE COST OF MAINTAINING THE SYSTEM IN THAT CONDITION AND CAN BE LOOKED UPON AS AN INSURANCE PREMIUM TO ASSURE THE WARTIME READINESS OF THE SYSTEM. TO DO OTHERWISE WOULD RESULT IN FAILUR TO MEET AFCENT

MILITARY REQUIREMENT.

THERE WAS CONSENSUS THAT THE COMMITTEE COULD DEVELOP A NEW CEPS COST SHARING FORMULA BASED UPON FACTORS WHICH ARE INVOLVED IN THE OPERATION, MAINTENANCE AND USE OF THE SYSTEM. THE COMMITTEE BELIEVED, HOWEVER, THAT IT WAS NOT COMPETENT TO UNDERTAKE AN ADJUSTMENT OF COST SHARES WHICH WOULD TAKE INTO ACCOUNT RESOLUTION OF THE US BURDENSARING REQUEST. THE COMMITTEE'S COST SHARING RESULTS, THEREFORE, WOULD BE FURNISHED TO DEPUTY SECRETARY GENERAL PANSA'S BURDENSARING COMMITTEE FOR FURTHER MODIFICATION TO REFLECT ANY BURDENSARING ADJUSTMENTS AS DESIRED. THE US REP (WITKO) STATED THAT HE HAD NO AUTHORITY TO AGREE TO REMOVAL OF THE CEPS DEFICIT ISSUE FROM BURDENSARING, BUT THAT THE ABOVE APPROACH WOULD BE REPORTED TO HIS AUTHORITIES SINCE IT PERMITTED BURDENSARING CONSIDERATIONS TO BE APPLIED AFTER THE CEPPC DEVELOPED ITS COST SHARING FORMULA BASED UPON TECHNICAL FACTORS WITHIN THE COMPETENCE OF THE COMMITTEE.

THE COMMITTEE DISCUSSED IN GENERAL TERMS CERTAIN CONSIDERATIONS THAT SHOULD BE TAKEN INTO ACCOUNT IN DEVELOPING A NEW FORMULA FOR THE CEPS. THERE WAS AGREEMENT THAT TWO FACTORS SHOULD BE TAKEN INTO ACCOUNT: (1) USE (PEACE AND WAR); AND (2) AN INCENTIVE TO ENCOURAGE EFFICIENCY IN PIPELINE OPERATION ON THE PART OF THE HOST NATIONS.

THE USE FACTOR SHOULD NOT BE BASED ON DETAILED TECHNICAL ANALYSIS, FIRSTLY BECAUSE THERE COULD BE DISAGREEMENT ON THE BASIS OF CALCULATIONS, AND SECONDLY BECAUSE ANY FORMULA SO DERIVED

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WOULD HAVE ONLY A TRANSIENT VALIDITY SINCE THE ELEMENT ENTERING INTO THE CALCULATIONS ARE CONTINUALLY CHANGING. THE COST SHARES OF THE COUNTRIES BASED ON USE SHOULD BE ORDERS OF MAGNITUDE THAT COULD BE EXPECTED TO HAVE A GENERAL VALIDITY OVER A PERIOD OF TIME.

IN AN EFFORT TO REACH A SOLUTION THE REPRESENTATIVES OF THE FOUR HOST COUNTRIES EXPRESSED THEIR READINESS TO SUBMIT TO THEIR AUTHORITIES ALL ARGUMENTS FOR AN INCREASE IN THE TOTAL SHARE OF THE HOST COUNTRIES OVER AND ABOVE THAT CALCULATED ON THE USE FACTOR. THE REPRESENTATIVE OF THE NON-HOST COUNTRIES UNDERTOOK TO PRESENT TO THEIR AUTHORITIES THE PROPOSAL FOR SHARING (PRO-RATA TO THEIR USE FACTOR SHARE) THE DECREASE RESULTING FROM THE INCENTIVE FACTOR ADDED TO THE HOST COUNTRIES SHARES.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 3631

FYI: CALCULATIONS IN WORKING PAPER WHICH REFLECT SYSTEM USE RESULT IN FOUR HOST NATIONS CONTRIBUTING ABOUT 53-55 PCT OF NET COST AND NON-HOST NATIONS ABOUT 45-47 PCT. THIS WAS BASED UPON A NINE-YEAR AVERAGE OF BILLINGS FOR PEACETIME USE AND UPON THE CEPS EMERGENCY PLAN FOR WARTIME USE. IF USE IS CALCULATED WITH OTHER YARDSTICKS, THE PERCENTAGS COME OUT BASICALLY THE SAME. WHILE COMMITTEE MEMBERS COULD NOT 'JUST AS CEOA COULD NOT) DEVELOP A YARDSTICK TO MEASURE NUMERICALLY THE UNR OLVED ISSUES (TAXES, PERSONNEL ESTABLISHMNT, CIVIL TARIFFS, HOST NATION BENEFITS AND RISKS, ETC.), AN OVERALL SUBJECTIVE EVALUATION FOR THE INCENTIVE FACTOR CAN BE APPROXIMATELY 15 PERCENTAG POINTS. THIS THEN INCREASES THE FOUR HOST NATIONS' COMBINED SHARE TO 68-70 PCT AND REDUCES NON-HOST NATIONS' SHARE TOTALY TO APPROXIMATELY 30 PCT. IF LATTR IS DIVIDED ACCORDING TO CURRENT COST SHARS, US SHARE WOULD BE 17-18 PCT; IF DIVIDED BASED ON ABOVE USE FACTOR, US SHARE COUL BE ABOUT 24 PCT. AT JULY MEETING, COMMITTEE REPS WILL BE ASKED TO REPORT NATIONAL REACTIONS TO THIS APPROACH. US REP INDICATED THAT US COULD NOT ACCEPT FINAL SHARE OF THAT MAGNITUDE BUT THAT HE WOULD REPORT THE PROPOSAL AS A FIRST STEP TOWARD THE US GOAL WHICH COULD BE ACHIEVED WHEN BURDENSARING/CONSIDERATIONS ARE APPLIED. ACTION REQUESTED: WASHINGTON APPROVAL NLT GQE JULY TO: CONFIDENTIAL

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(1) ATTACK REVISION OF CEPS COST SHARING FORMULA IN TWO STEPS -- THE FIRST STEP BY CEPPC WITHOUT CNSIDERING BURDENSARING; THE SECOND STEP BY PANSA COMMITTEE'S ADDITIONAL REDUCTION OF US SHARE TO PROACTICAL MINIMUM AS A BURDENSARING MEASURE AND (2) AGREE TO PRINCIPLE OF CEPPC DEVELOPING COST SHARES BASED UPON SYSTEM USE AND INCENTIVE FACTOR.

END FYI.

(B) CONTRIBUTIONS - 1974. THE US LIFTED ITS RESERVATION ON THE SECOND CALL FOR CONTRIBUTIONS PER REF B. THE NETHERLANDS REPORTED ITS CONFIRMATION OF THE SECOND CALL.

(C) REVENUE FROM MILITARY AND CIVIL TRANSPORTS. THIS ITEM INCLUDED THE CEOA 1974 MID-YEAR FINANCIAL REVIEW WHICH IS CONTAINED IN OAF(74)D/035 (ANNEX TO AC/120-D/866). GENERAL MANAGER DEVELOPED THREE CEPS NET COST ESTIMATES WHICH VARY FROM THE FF 45 MILLION (31.9 PCT OF BUDGET) REPORTED LAST MONTH TO FF 49.4 MILLION (33.7 PCT OF BUDGET). ESTIMATES ALLOW FOR INABILITY TO PREDICT ACCURATELY THE DROP IN CIVIL TRAFFIC FOR SOME LINES, THE INCREASES IN COST OF OIL, AND THE HIGHER-THAN-EXPECTED WAGE INCREASES

AGENDA ITEMS III(D), (E), AND (F) (TAXATION OF CEPS OPERATIONS, CEPS ESTABLISHMENTS, AND GUARDING, RESPECTIVELY) WERE NOT CONSIDERED AT JUNE MEETING SINCE THESE FACTORS ARE TO BE CONSIDERED IN DEVELOPING NEW COST SHARING FORMULA. AGENDA ITEM III (G) (TELECOMMUNICATIONS) WAS WITHDRAWN BY GERMANY AND WILL BE CONSIDERED AT JULY MEETING.

IV. SPECIAL REPORT BY THE NATO BOARD OF AUDITORS. GROUP OF RAPPORTEURS REPORT (AC/120-D/857) WAS ISSUED JUST PRIOR TO START OF CEPPC MEETING (COPY FURNISHED TO WASHINGTON 18 JUNE). SINCE MOST COMMITTEE MEMBERS HAD NOT REVIEWED REPORT AND NONE HAD RECEIVED INSTRUCTIONS FROM THEIR CAPITALS, NO DISCUSSION WAS HELD. THE BELGIAN REP (DUPONT) EXPRESSED THE OPINION THAT ANY DISCUSSION OF THE BOARD OF AUDITORS' REPORT SHOULD COME AFTER THE REVISION OF THE COST SHARING FORMULA SINCE THE ATTITUDES OF GOVERNMENTS MIGHT CHANGE AS A RESULT OF THE COST SHARING REVISION. MISSION COMMENTS ON REPORT WILL BE PROVIDED SEPTEMBER.

V. MEETING DATES FOR 1975. ACTION WAS WITHHELD PENDING COORDINATION OF DATES WITH CEPO TO AVOID POSSIBLE CONFLICT WITH AFCEC TRAINING CONFIDENTIAL

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EXERCISES.

VI. ANY OTHER BUSINESS.

EXTENSION OF LE HAVRE-VALENCIENNES CONTRACT FOR NON-NATO MOVEMENTS WILL RUN OUT IN JULY AND REQUESTED COMMITTEE APPROVAL OF CONTRACT EXTENSION (UNTIL 31 DEC 1977). BASIC DOCUMENT FOR EXTENSION IS OAO(72)D/085 (ANNEX TO AC/120-D/788). FRENCH HAVE NEGOTIATED INCREASED TARIFFS FOR LINE (REPORTED REF C). COST STUDIES REQUESTED BY COMMITTEE (AT US INITIATIVE OVER PAST YEAR AND A HALF) STILL NOT PUBLISHED BY CEOA. GENERAL MANAGER SUMMARIZED RESULTS OF STUDY WHICH HAS RANGE OF CONDITIONS FROM (1) ALL COSTS TO INCLUDE DEPRECIATION OF FIXED ASSETS AND OVERHEAD WHICH RESULTS IN AVERAGE ANNUAL NET LOSS OF FF 270,000 TO (2) DEPRECIATION EXCLUDED AND LIMITED OVERHEAD BUT INCLUDES OTHER COST ELEMENTS WHICH RESULTS IN ANNUAL NET PROFIT OF FF 3.8 MILLION. FOLLOWING WASHINGTON GUIDANCE REF D, US DID NOT AGREE TO EXTENSION OF CONTRACT PENDING RECEIPT OF DETAILED STUDY. IF, UPON REVIEW OF STUDY, GUIDANCE IN REF D IS MET, US WILL AGREE TO EXTENSION.

VII. RESTRICTED SESSION: POST OF GENERAL MANAGER. BELGIUM HAS NOMINATED LT GEN VERBOIS FOR THE POST OF CEOA GENERAL MANAGER.

SHORT CURRICULUM VITAE SKETCHES HIS CAREER AS AN ENGINEER OFFICER IN THE BELGIAN ARMY. AS CHIEF OF COURSES IN THE ROYAL MILITARY ACADEMY, HE DIRECTD THE CHAIR FOR ENGINEERING TECHNIQUE WHICH INCLUDED A COURSE ON PIPELINES. SINCE INFORMATION PROVIDED ON POSITONS HELD AS GENERAL OFFICER IS SKETCHY, US REP REQUESTED BELGIAN AUTHORITIES TO SUPPLEMENT. WE ALSO WILL SEEK FURTHER INFORMATION FROM OTHER SOURCES. UPON RECEIPT OF THIS INFORMATION, THE FULL CURRICULUM VITAE WILL BE FORWARDED FOR WASHINGTON APPROVAL.

VIII. DATE AND PLAC OF NXT MEETING. NEXT MEETING WILL BE HELD IN BRUSSELS ON 18-19 JULY 1974. RUMSFELD

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